SGI CANADA

2003 ANNUAL REPORT

SGI CANADA

SGI CANADA

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Letter of Transmittal

Regina, Saskatchewan

March, 2004

To Her Honour,
The Honourable Lynda Haverstock
Lieutenant Governor of the Province of Saskatchewan

Your Honour:

I have the honour to submit herewith the annual report of Saskatchewan Government Insurance for the year ended December 31, 2003, including the financial statements in the form required by the Treasury Board and in accordance with the *Saskatchewan Government Insurance Act.*

I have the Honour to be, Madam,

Your obedient Servant,

Maynard Sonntag

Honourable Maynard Sonntag
Minister Responsible for Saskatchewan Government Insurance

Chair's Letter

In 2003, our team of employees and brokers worked together to achieve one of the most successful years in the history of SGI CANADA.

My thanks to staff and brokers for their hard work and dedication throughout the previous year. SGI's program of responsible management and controlled growth is in the best interests of the Corporation and its shareholder, the residents of Saskatchewan.

I would also like to thank the Board of Directors for their direction and support, which have put the Corporation in a solid position for profitability now and in the years to come.

Nancy E. Hopkins
Chair

SGI CANADA

Board of Directors

back row, left to right:

Larry Fogg
– President and CEO, SGI, Regina, SK

Nancy E. Hopkins
– Lawyer, McDougall Gauley, Saskatoon, SK

Joan F.D. Baldwin
– Doctor, Regina, SK

Dale Bloom
– Corporate Secretary, Crown Investments Corporation, Regina, SK

Kendra Chesney
– Information Technology Analyst, SGI, Regina, SK

Joan D. Bellegarde
– Executive Director, File Hills Qu'Appelle Tribal Council, Fort Qu'Appelle, SK

front row, left to right:

Jim Mills
– Mayor of Elrose, SK

W.J.A. (Bill) Heidt
– President, TGS Properties Ltd., Calgary, AB

Robert Fenwick
– Retired Insurance Professional, Dorintosh, SK

J. Walter Bardua
– Retired Insurance Professional, Nanaimo, BC

SGI appreciates the contributions of **Don Cody** and **Delores Burkhart** who left the Board on March 28, 2003 and October 22, 2003, respectively. On April 1, 2003, Nancy E. Hopkins was appointed Chair of the Board and J. Walter Bardua was appointed Vice Chair on December 19, 2003.

Vice Presidents & Assistant Vice Presidents

Vice Presidents

Margaret Anderson
Systems

Cheryl Barber
Human Resources

Earl Cameron
Claims

Alan Cockman
Auto Fund

John Dobie
Finance

Randy Heise
Underwriting

Assistant Vice Presidents

Doug Campbell
Claims

Anna Lapierre
Auto Fund

Bob Lundy
Claims

Maureen MacCuish
Communications

Bernadette McIntyre
Auto Fund

Arun Patel
Salvage

Don Phillips
Claims

Jim Roberts
Underwriting

Don Thompson
Finance

Dwain Wells
Systems

Lorne Whippler
Underwriting

Sherry Wolf
Claims

President's Message

A major focus for the Corporation in 2003 was taking decisive action to restore profitability while continuing work to give value to SGI CANADA's owners – the people of Saskatchewan.

A number of adjustments were made throughout the Corporation, and we're now enjoying the payoff of that hard work as SGI CANADA posted a consolidated profit of $21.2 million in 2003.

SGI CANADA adhered to disciplined underwriting guidelines and charged the appropriate premium for the appropriate risk. SGI CANADA posted an underwriting profit for the first time since 1998 in the amount of $2.6 million. This shows the strength of the Corporation as the Canadian insurance industry as a whole hasn't posted an underwriting profit since 1979.

Investment income also improved in 2003. However, the trend of insurance companies relying on investment income while reducing rates to compete for business is not a viable option.

SGI CANADA has long operated under a philosophy of careful and controlled growth, and that philosophy is working. Our expansion efforts are yielding an increased book of business, profitable results and equally as important – new jobs right here at home.

Expansion continues to be important for spreading risk, maintaining and creating jobs at head office and increasing profits for shareholders. The turn-around at our Ontario subsidiary, Coachman, is especially encouraging as the company posted a profit in 2003 after implementing a successful business plan.

SGI CANADA will continue to carefully manage its subsidiaries and will build upon the successes of 2003.

As always, the company continued to make customer service a priority. It signed onto the Air Miles program in 2003 and expanded the broker extranet. The company also continued its commitment to community through support of its network of independent brokers and sponsoring events such as the SGI CANADA Charity Classic, SGI CANADA Charity Road Race and the Child Restraint Clinic program.

SGI CANADA staff and brokers should be proud of their hard work over the past year restoring profitability to the company and giving back to the people of Saskatchewan.

However, the insurance industry is still experiencing instability, including uncertainty in auto insurance markets. To counter the instability of the markets, SGI CANADA will continue on its path of responsible management and controlled growth in 2004.

Larry Fogg
President

After a challenging year in 2002, SGI CANADA experienced a financial turn-around in 2003 by posting a consolidated profit of $21.2 million.

In 2001 and 2002, the entire insurance industry suffered two of its worst financial years on record. Poor underwriting results, increased reinsurance costs and less than average investment income hit the industry hard.

While reinsurance markets continued to harden throughout 2003, SGI CANADA continued to adhere to solid underwriting guidelines and charge the appropriate premium for the risk. Premiums written in Saskatchewan increased 17% in 2003.

Also contributing to the Corporation's successful year was SGI CANADA's continued control over administration costs.

Although investment income improved in 2003, SGI CANADA took steps to reduce its dependence on investment income. Due mostly to a volatile Ontario auto insurance market, steps were also taken to improve results in 2003 at the Ontario subsidiary, Coachman, which posted a profit by year's end. These steps included increasing rates, moving to six-month policies, cancelling unprofitable brokers and applying the strictest underwriting guidelines to all new business. As well, the transfer of all support services from Toronto to head office in Regina was completed as planned in 2003.

SGI CANADA will continue to adhere to its strict underwriting practices in 2004 to maintain profitability and stay on the path of sustained, careful growth.

SGI CANADA CONSOLIDATED NET PROFIT

INSURANCE INDUSTRY OVERVIEW

Over the past several years many factors taken together have limited the financial performance of the property and casualty insurance industry in North America. In 2001 and 2002, the industry suffered two of the worst financial years on record.

The growing number of claims, claim costs and operating expenses exceeding premium revenues and declining earnings from investment portfolios have resulted in weak profits and overall erosion of capital levels throughout the insurance industry.

Although financial results in the industry improved noticeably in 2003, it is too soon to conclude that the trend of deteriorating financial returns has been reversed.

Rate increases, improved claims ratios and an improvement in investment returns all worked to strengthen financial results for the overall industry in 2003.

Because automobile insurance accounts for over one half of the Canadian insurance market in terms of net premiums written, the uncertainty in the private auto insurance market could put continued pressure on financial returns in 2004.

Sustainable profitability and a more stable auto insurance market are crucial for the soundness of the entire industry in the years ahead.

EXPANSION

Expansion remains important to SGI CANADA as it spreads risk, maintains and creates jobs in Saskatchewan and increases profits for shareholders.

SGI CANADA has taken a careful and cautious approach to expansion. Expansion began in 1993 when SGI CANADA Insurance Services Ltd. began offering property and casualty products in Manitoba. In 2001, SGI CANADA became the major shareholder in the Insurance Company of Prince Edward Island and also purchased the Coachman Insurance Company in Ontario.

It's important to spread risk to protect Saskatchewan shareholders due to SGI CANADA's large market share in the province. Losses in one product or province can be made up through profits in other products and in other provinces. It's a basic business principle for insurance companies to protect against significant losses in one geographic location.

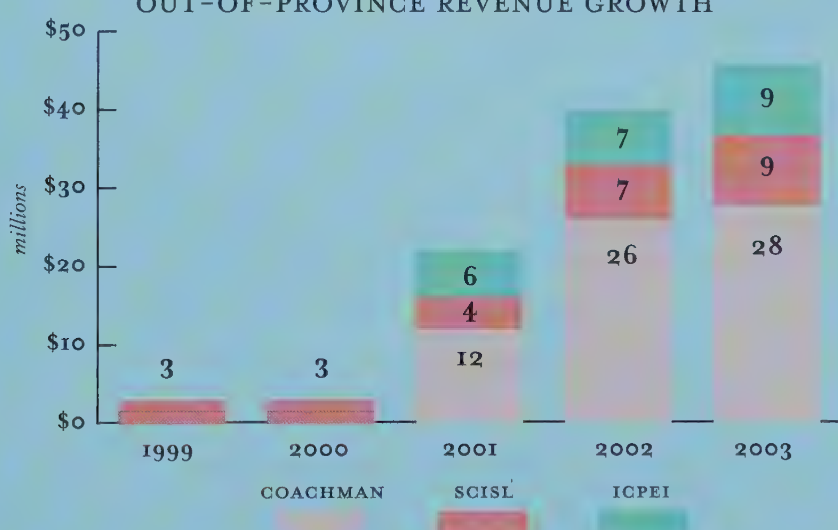
Until recently, SGI CANADA's Saskatchewan policy count was in decline. However, there was some growth in 2003, due in large part to an increase in auto extension business and an increase in home and commercial policy counts.

In 2003, approximately 20% of SGI CANADA's consolidated premium revenue was from outside of Saskatchewan – a significant change from only a few years ago when all risks were in Saskatchewan.

Technological gains continue to create efficiencies that impact all jobs. In order to create jobs in Saskatchewan, and to ensure we can sustain the number of positions we currently employ, expansion is essential.

All three of SGI CANADA's expansion companies are creating jobs in Saskatchewan.

OUT-OF-PROVINCE REVENUE GROWTH



Coachman Insurance Company

After a challenging year in 2002, Coachman made a dramatic turn-around with a profit of over $320,000 in 2003.

A solid business strategy turned the company into a profitable venture for the people of Saskatchewan.

The action plan for 2003 included increasing auto and property insurance rates, moving to six-month policies, canceling unprofitable brokers, applying the strictest underwriting guidelines to all new business and expanding the product line. When SGI CANADA purchased Coachman in 2001, it was strictly an automobile insurance provider. By the end of 2003, about 40 brokers in Ontario sold Coachman property and casualty products to homeowners and small businesses.

Turning Coachman into a multi-line business proved successful because it spread risk away from the volatile Ontario auto insurance market.

As well, to reduce administrative costs and create jobs in Saskatchewan, all support services were transferred from Toronto to head office in Regina.

Underwriting for all Home and Commercial Property products is being done in Regina by SGI CANADA staff. Staff in support areas are handling the additional work involved with Coachman relating to direct bill, premium finance, mail distribution and other duties.

The plan put into action at the beginning of 2003 has worked and Coachman is well positioned for 2004. SGI CANADA will continue to carefully grow Coachman's book of business to increase premiums and create jobs in Saskatchewan.

SCISL MANITOBA

SGI CANADA Insurance Services Ltd. (SCISL) has operated in Manitoba since 1993. In the past decade, SCISL has grown to become the 12th largest insurer in Manitoba.

In 2003, SCISL Manitoba wrote $10.1 million in premiums, which is 10% higher than the previous year. SCISL Manitoba also grew its policy count by 6% and posted a profit of over $450,000.

An underwriting profit was also achieved in difficult market conditions putting the company well above the industry average.

The future for SCISL Manitoba is positive with its plan for controlled growth.

The Insurance Company
Of Prince Edward Island
People you know you can trust

INSURANCE COMPANY OF PRINCE EDWARD ISLAND

ICPEI has a long, stable history that continued this year with a profit of close to $700,000.

The company wrote over $9 million worth of premium in 2003, 10% higher than in the previous year, with growth primarily coming from auto and commercial property business.

The auto insurance market in the Maritimes remains volatile and increases in rates responsive to market conditions were a major stabilizing factor.

Besides challenges presented by hurricane Juan in October, favourable winter weather conditions kept claim costs reasonable.

ICPEI will continue to focus on its core business in 2004, while taking a cautious approach to growth.

SGI CANADA BROKERS: SERVING OUR COMMUNITIES

SGI CANADA was created 58 years ago to better serve Saskatchewan residents and it continually seeks ways to serve them better.

A big part of that excellence in customer service comes from SGI CANADA's close relationship with its independent network of 330 brokers.

SGI CANADA markets its products through independent insurance brokers.

These brokerages make their own hours, pay their own expenses and have complete control over their own business. An independent broker represents the customer, not any one insurance company, so they can best meet the customer's needs.

Saskatchewan brokers are also an important part of the communities where they do business. They create jobs, provide a valuable, professional service and give support to many community-sponsored events.

In 2003, SGI CANADA strengthened the bond with its brokers, and in turn, assisted its customers in various ways.

One of SGI CANADA's newest additions to its strong independent broker force is Susan Richard of Tyvan, SK. Opening in October and now operating out of an office located on the same lot as Susan's home, Richard Agency serves the small town and surrounding area.

When long-time area broker George Seitz decided to put the Tyvan agency up for sale in 2003, Susan jumped at the chance of keeping the business in the town. "I really didn't have any insurance experience, but I couldn't let another business just disappear," said the mother of two children. "I felt like it was something I had to do for the community."

Air Miles Rewards

Through its brokers, SGI CANADA began offering its policyholders Air Miles reward miles on its Saskatchewan products in 2003. The program was met with enthusiasm from our customers and is expected to gain momentum in 2004.

The AIR MILES® Reward Program has been around since 1992 and there are over 7.4 million households or 12.5 million people who participate in the program across Canada. The Air Miles program is a simple one where you get one reward mile for every $20 you spend on an SGI CANADA insurance policy.

Extranet Expansion

The Corporation continued improving efficiency with its brokers by expanding the SGI CANADA extranet over the previous year.

The extranet offers information and riders for brokerages online and cuts down on the amount of paperwork and time needed to perform day to day tasks. By decreasing the amount of time required on administrative duties, SGI CANADA is making it possible for its brokers to spend more time with their customers.

Broker RRSP Program

Completing its second year, the Broker Registered Retirement Savings Plan (RRSP) program continued to be a successful and popular service.

At the end of the year almost 300 brokerages were participating representing close to 800 broker principals and employees.

Three separate summer storms originating in northwest Saskatchewan caused property damage of over $6 million. SGI CANADA and its brokers in the North Battleford area provided immediate service to those affected. Brokerages such as Murray Mitchell Agencies, Gilbert Agencies, Fleck's Agencies and Wilkie Agencies worked together with SGI CANADA employees to assist their customers.

Over 1,500 claims poured in from residents who had suffered damage from the three storms. SGI CANADA brought in extra appraisers and adjusters from around the province in order to more quickly process the large number of claims.

COMMITMENT TO THE COMMUNITY

Every year SGI CANADA provides support to brokers around the province, who in turn, sponsor community events, activities and programs.

These events and programs provide valuable information and resources to communities across Saskatchewan, while at the same time building spirit throughout the province.

SGI CANADA brokers are an integral part of this community-building process.

Child Restraint Clinics

got the right fit

Each year, SGI CANADA and brokers across the province host free, drive-through clinics to teach parents and others that attend how to properly install child restraints.

At these clinics, trained volunteers work with parents and caregivers to show them how the child restraint goes in the vehicle and how the child should be secured in the restraint.

In the past six years, about 12,000 child restraints have been checked. In 2003, 80 clinics were held in 52 communities across the province.

Co-ordinating these clinics requires the co-operation of numerous community agencies such as SGI CANADA brokers, health regions, ambulance services and police.

The February fire at the former Canadian Bible College in Regina is an example of how SGI CANADA and its brokers can be relied upon to be there when the customer needs them. Working with the previous and present owners, SGI CANADA has facilitated the extensive repairs with scheduled completion in 2004.

SGI CANADA Charity Classic

SGI CANADA's annual curling bonspiel celebrated its 11th anniversary in 2003.

Every year brokers donate tens of thousands of dollars to the event and are a huge part of the Classic's success.

Since its inception in 1993, the SGI CANADA Charity Classic has been one of our most successful charitable ventures. With the support of our brokers and our business partners, as well as the dedication of our staff volunteers, the four-day curling bonspiel has raised over $250,000 to benefit numerous Saskatchewan charities.

SGI CANADA Charity Road Race

SGI CANADA brokers also provide considerable financial support to the SGI CANADA Charity Road Race.

Almost 300 people took part in the fourth annual road race in 2003. Competitors from across Canada took part in the event that featured 10K and 5K road races, a 2K Family Walk and a 10K wheelchair race.

All proceeds from the road race go to the Saskatchewan chapter of Kids Help Phone, Canada's only 24-hour, toll-free, bilingual and anonymous phone counseling, referral and Internet service for children and youth.

SGI CANADA and its brokers have donated close to $10,000 to the charity since the beginning of the event.

SGI CANADA Float

The SGI CANADA float "Insuring Your Future" traveled the province in 2003 promoting road safety to audiences young and old.

The float was displayed in 20 community parades on behalf of the SGI CANADA broker in the area.

Over the past seven years, the SGI CANADA float has visited all corners of Saskatchewan winning numerous awards.

Smoke Alarm Program

Since 1998, SGI CANADA has partnered with the Regina Fire Department to install free smoke alarms in high fire risk neighbourhoods. Since the program's inception, firefighters have checked the smoke alarms in over 2,700 Regina homes, and as a result, have installed over 2,400 lithium battery operated smoke alarms. These smoke alarms are tamper proof and have a life span of 10 years.

The ongoing program targets homes in areas with high fire occurrences, alternating between the Core/Ritchie and north-central Regina neighbourhoods. Firefighters check smoke alarms in homes to make sure they work properly and install new lithium battery operated smoke alarms wherever necessary, all free of charge.

Looking ahead

SGI CANADA had an exceptional year in 2003. The company faced serious challenges as a result of lower than average investment earnings and the instability of the market, particularly in auto insurance.

We have met these challenges head on and we are able to report a close to record profit due to strategic business planning.

The business strategy remains unchanged for 2004. SGI CANADA remains committed to disciplined underwriting and careful, controlled growth.

Balanced Scorecard

SGI CANADA sells property and casualty insurance and is the competitive insurance arm under the umbrella of SGI, a provincially-owned Crown corporation.

SGI employs more than 1,500 people, operates 21 claims centres and five salvage centres in 13 communities across the province. SGI CANADA has developed a set of short- and long-term objectives and targets that make up our Balanced Scorecard.

SGI CANADA has met or exceeded its key targets in the financial, internal and customer service areas for 2003. SGI CANADA continues to meet most of its targets in the public policy category, exceeding the target for women in under-represented roles, aboriginal and visible minority areas.

SGI CANADA was unable to meet its targets in the learning and innovation category as a program was being customized for the Corporation which delayed the expected implementation date. The Corporation still intends to meet its target of training all frontline staff.

SGI CANADA's performance is measured against the following key objectives.

Balanced Scorecard

	Strategic Objective	Strategic Measurement	2003 Target	2003 Actual
Financial	Provide return to shareholder	Pre-tax return on equity	At least 5% higher than the Canadian property and casualty insurance industry average of 9.8%	24.6%
		Investment portfolio return	Outperform the investment policy benchmark return of 5.2%	6.4%
Internal	Underwrite profitably	SGI CANADA loss ratio	Less than 62%	58.3%
Customer Service	Commitment to the independent broker	Saskatchewan and Manitoba broker satisfaction	80% of brokers rate SGI CANADA the same or better than the competition	92%
	Deliver highly valued service to claims customers	Saskatchewan customer service survey	94%	93%
Learning and Innovation	Improve business effectiveness through corporate training	Frontline staff receiving specialized customer experience training	25% of staff trained	12% of staff have received training
Public Policy	Economic diversification and growth	% of dollars spent in Saskatchewan	90%	80%
	Representative workforce	Women in under-represented categories	47%	48.5%
		Aboriginal	7.9%	8.1%
		People with disabilities	8%	7.3%
		Visible minorities	3%	3.1%
		New hires who are designated group members	25%	30.8%

Corporate Governance

Authority:

SGI CANADA is a division of SGI. It operates as a competitive insurer in the Province of Saskatchewan in accordance with the powers granted to it under the *Saskatchewan Government Insurance Act,* 1980. SGI is itself a statutory Crown corporation which is governed by the *Saskatchewan Government Insurance Act,* 1980. The Board of Directors oversees the management of the Corporation and holds management accountable for the Corporation's performance. Through the Chair, the Board of Directors is accountable to the Minister responsible for Crown Investments Corporation, who functions as a link between the Corporation and Crown Investments Corporation and Cabinet, as well as the provincial legislature.

Committees:

The Board of Directors has established the following committees to assist in the discharging of its responsibilities:

- Audit and Finance Committee
- Investment and Legislative Review Committee
- Governance Committee
- Human Resources Committee

TSE Governance Guidelines

(1) The board should explicitly assume responsibility for the stewardship of the corporation, specifically for:

(a) adoption of a strategic planning process;
SGI has a comprehensive annual strategic planning process. Senior management of the Corporation undergo a process of long-term planning on an annual basis as a preliminary step in the preparation for the Board and Executive planning conference. The Board participates in the development and approval of the final version of the strategic plan which reviews the long-term risks the Corporation may face, as well as opportunities the Corporation should investigate or pursue.

(b) the identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks;
The Board has delegated to the Audit and Finance Committee the responsibility for review and assessment of the nature and extent of the risks facing the Company. The Committee determines the likelihood of the risks materializing. Through this review, the Committee addresses the risks acceptable to the Corporation and, for those that are not acceptable, ensures systems are in place to

manage them. On an annual basis, the Committee reports to the Board the results of the review with any recommendations as appropriate.

c) succession planning, including appointing, training and monitoring senior management;
The Board has delegated to the Human Resources Committee the responsibility to review the Corporation's succession planning strategy with the President and CEO on an annual basis. The Committee recommends to the Board a senior management succession plan.

(d) a communication policy for the corporation; and
The Corporation has a formal, written communication policy, which has been approved by the Board of Directors. The policy defines the communication practices for the Corporation, confirms that these practices will be guided by the values defined by the Corporation and commits the Corporation to providing timely communication to staff, shareholders and customers.

(e) the integrity of the corporation's internal control and management information systems.
The Board has delegated to the Audit and Finance Committee the responsibility to review annually the Corporation's internal control systems and report to the Board the results of the review.

(2) The board of directors of every corporation should be constituted with a majority of individuals who qualify as unrelated directors. (i.e. one who is independent of management and is free from any interest in any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interest of the corporation, other than interests and relationships arising from shareholding):

The SGI Board of Directors is constituted with a majority of unrelated directors. Larry Fogg, President and Chief Executive Officer, and Kendra Chesney, SGI Information Technology Analyst, are the only related Board members.

(3) Disclosure of significant shareholders (ability to exercise a majority of votes to elect directors):

SGI is a statutory Crown corporation and, as such, it does not have any share capital.

The board is required to disclose on an annual basis the analysis of the application of the principles supporting the conclusion of whether the director is related or an unrelated director:

Nancy E. Hopkins, Chair: Unrelated (Appointed Chair of the Board effective April 1)
Lawyer, McDougall Gauley

J. Walter Bardua, Vice Chair: Unrelated (Appointed Vice Chair effective Dec. 19)
Retired Insurance Professional

Corporate Governance

Robert Fenwick: Unrelated
Retired Insurance Professional

Joan F.D. Baldwin: Unrelated
Doctor, Gardiner Park Clinic

Jim Mills: Unrelated
Mayor, Elrose, SK

Larry Fogg: Related
President and CEO, SGI

Joan R. Bellegarde: Unrelated
Executive Director, File Hills Qu'Appelle Tribal Council

W.J.A. (Bill) Heidt: Unrelated
Retired Insurance Professional

Kendra Chesney: Related
Information Technology Analyst, SGI

Don Cody, Chair: Unrelated (resigned from the Board effective March 28)
Mayor, City of Prince Albert, SK

Delores Burkhart: Vice Chair: Unrelated (resigned from the Board effective Oct. 22)
Consultant

(4) The board of directors of every corporation should appoint a committee of directors composed exclusively of outside directors (i.e. non-management) the majority of whom are unrelated directors, with the responsibility for proposing to the full board new nominees to the board and for assessing directors on an ongoing basis.

The Governance Committee of the Board has been charged with the responsibility to recommend to the Board, within the constraints set forth in the Articles of the Corporation and in any applicable legislation, the size and composition of the Board of Directors and the expertise of its members to meet the needs of the Corporation. As well, the Committee reviews the qualifications of potential candidates for appointment to the Board.

The Committee is comprised of four directors. They are all outside directors; one is related.

(5) Every board of directors should implement a process to be carried out by the nominating committee or other appropriate committee, for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors:

The Governance Committee is charged with the responsibility of recommending to the Board of Directors a process for evaluating the performance of the Board and its members. The Committee is responsible for implementing the process and undertakes the evaluation on an annual basis.

(6) Every corporation, as an integral element of the process for appointing new directors, should provide an orientation and education program for new recruits to the board.

The Governance Committee is responsible for the implementation of an orientation program for new Board members and an ongoing education program for existing Board members. As well, Crown Investments Corporation (CIC) provides, on an annual basis, a comprehensive training program for all Crown Corporation directors.

(7) Every board of directors should examine its size and, with a view to determining the impact of the number upon effectiveness, undertake where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision-making.

The Governance Committee of the Board has been charged with the responsibility to recommend to the Board, within the constraints set forth in the Articles of the Corporation and in any applicable legislation, the size and composition of the Board of Directors and the expertise of its members to meet the needs of the Corporation. As well, the Committee reviews the qualifications of potential candidates for appointment to the Board.

(8) The board of directors should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities and risk involved in being an effective director.

Crown Investments Corporation is mandated by legislation to set the remuneration for the SGI Board of Directors.

(9a) A committee should be generally composed of non-management directors:
The Board Committees are comprised entirely of outside directors.

(b) The majority of committee members should be unrelated:
All directors appointed to the Committees are unrelated, with the exception of one member appointed to the Governance Committee.

Corporate Governance

(10) Every board of directors should expressly assume responsibility for, or assign to a committee of directors the general responsibility for, developing the corporation's approach to governance issues. This committee would, amongst other things, be responsible for the corporation's response to these governance guidelines:

The Board has formed a Governance Committee, which is responsible for monitoring the governance of the Board and Committees of the Board. The Committee recommends governance issues to be discussed at the Board level.

(11a) The board of directors, together with the CEO, should develop position descriptions for the board and for the CEO involving the definition of the limits to management's responsibilities:

The Board has approved Terms of Reference which describe its responsibilities. As well, the Governance Committee reviews, as required and at least annually, the duties and responsibilities of the Board and all Board committees and recommends to the Board any amendments as deemed necessary or advisable, including identification of committees to which management should report on specific issues.

(b) The board should approve or develop the corporation's objectives which the CEO is responsible for meeting:

The CEO has a job description, which is reviewed by the Human Resources Committee. The CEO is responsible for meeting the targets outlined in the Corporate Balanced Scorecard against which he is evaluated on an annual basis. The CEO evaluation is undertaken by the Human Resources Committee, and reported to and approved by the Board.

(12) Every board of directors should have in place appropriate structures and procedures to ensure that the board can function independently of management:

The Chair of the Board is an outside, unrelated director.

The Board of Directors holds an in camera session at the beginning of each meeting, during which time management is excused.

(13) The audit committee of every board of directors should be composed only of outside directors. The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to committee members as to their duties. The audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues, as appropriate. The audit committee's duties should include oversight responsibility for management reporting on internal control. It is the responsibility of the audit committee to ensure that management has designed and implemented an effective system of internal control:

The Audit and Finance Committee is comprised entirely of outside, unrelated directors. The Committee includes a chartered accountant, and all members of the Committee are financially literate. The Committee has a Board-approved mandate, which is reviewed regularly by both the Audit Committee itself and the Governance Committee.

The Audit and Finance Committee meets at least annually with both the external and internal auditors, during which time all management is excused.

The Committee's responsibilities include reviewing: the results of the external auditors' review of the Corporation's financial records; the plans and accomplishments of the internal auditor; and the reports of the internal and external auditors with respect to the Corporation's internal control systems. The Committee reports to the Board any matters which may remain unresolved.

(14) The board of directors should implement a system, which enables an individual director to engage an outside adviser at the expense of the company in appropriate circumstances. The engagement of the outside adviser should be subject to the approval of an appropriate committee of the board.

As part of their constitution, the Board and its Committees have the authority to obtain the advice of outside experts in instances where they believe it is required, in order to properly discharge their obligations to the Corporation.

Management Discussion and Analysis

INTRODUCTION

The information in this discussion and analysis should be read in conjunction with SGI CANADA's (the Corporation's) consolidated financial statements and accompanying notes. This report is intended to assist the reader in understanding the financial position and operating results of the Corporation.

2003 OVERVIEW

There were many successes in 2003 for SGI CANADA, both within Saskatchewan and in expansion operations outside of Saskatchewan, as results improved significantly from 2002. In fact, SGI CANADA's improvement has exceeded the industry average. The merging of Coachman operations continued, as did the expansion of the commercial and personal property products in Ontario.

SGI CANADA has recovered from its $8.8 million loss in 2002 and not only achieved a profit of $21.2 million in 2003, but also recorded an underwriting profit of $2.6 million. This is an improvement of $24.9 million in underwriting results and a $30.0 million turnaround in net profit from 2002. In SGI CANADA's main market of Saskatchewan, profitability was up significantly. Operations in Manitoba, Prince Edward Island and Ontario also improved substantially as all operating segments were profitable in 2003.

For SGI CANADA and the entire property and casualty insurance industry, 2002 was one of the worst financial years on record. However, in 2003, SGI CANADA realized a 25% pre-tax return on equity, a significant turnaround from the 6% pre-tax loss in 2002. While SGI CANADA saw significant improvement, the Canadian insurance industry is only expecting modest improvement. There are several reasons for SGI CANADA's improvement exceeding the industry. First, SGI CANADA has a much larger weighting of extension automobile premiums from Saskatchewan (70% of total consolidated automobile premiums) than other companies operating in the market. The mandatory public auto insurance system provides stability in the Saskatchewan market. SGI CANADA can take advantage of the stability in basic auto rates when pricing its auto extension product. Meanwhile, provinces with private auto insurance are seeing double-digit rate increases, resulting in insurance companies in these provinces struggling to achieve proper pricing. Another reason for SGI CANADA's significant improvement compared to the industry is because it was not exposed to the British Columbia forest fires and the impact of hurricane Juan was not material for SGI CANADA.

The Ontario automobile market, which is the largest in Canada representing approximately 22% of the property and casualty insurance market in the country, has presented real challenges for all insurers in the market. SGI CANADA made several operational changes in 2002 and 2003 to the automobile product that it sells through its Ontario subsidiary. These changes have returned the operation to a profitable status.

Changes implemented to date consist of rate increases of 61.9% since taking ownership of Coachman in July 2001 (the latest was a 27.8% increase that was implemented in July of 2003), movement to six-month policies, exiting unprofitable lines of business and introducing operational changes to better manage the cost of claims. In addition, property business writing totaled $4.0 million in 2003, which represents 20% of the total Coachman book of business. Expanding the product line at Coachman from a single auto insurance product to a multi-line company is a solid business strategy that makes the company less vulnerable to losses in any one product. These efforts have proven successful, and the plan is to continue expanding the property book of business in Ontario.

CORE BUSINESS

SGI CANADA is a provincially owned Crown corporation operating a property and casualty insurance business. The Corporation was formed 58 years ago to provide quality affordable insurance products to Saskatchewan residents. SGI CANADA and its subsidiaries sell property and casualty insurance products in Saskatchewan, Manitoba, Ontario, Prince Edward Island and New Brunswick. In Saskatchewan, SGI CANADA has a long history of stability and community involvement throughout the province. This strong history and ongoing commitment to Saskatchewan has helped SGI CANADA maintain a significant share of this market. The products SGI CANADA sells are delivered through a network of over 300 independent brokers located throughout the province. In order to continue delivering insurance products that customers desire, SGI CANADA works closely with its brokers to obtain input and advice on the changing needs of customers. With the assistance of the brokers, SGI CANADA continues to take the lead in delivering innovative insurance products to Saskatchewan residents and businesses.

SGI CANADA's ability to follow a disciplined underwriting approach in order to achieve underwriting profitability has been critical to its success. While the highly competitive market over the last several years has put pressure on SGI CANADA and all insurance companies' underwriting margins, the Corporation has historically been very successful at underwriting. This success has come from two areas; a large database of information in its underwriting system to properly assess risk and committed and experienced staff. The Corporation has been successful at retaining its employees, which over the years has contributed to its superior loss ratio in the Saskatchewan market compared to the insurance industry overall.

To adequately assess risk, an insurance company relies to a great extent on information retained in its computer system to properly price the product. SGI CANADA maintains an integrated claims and underwriting system, which was developed internally. The product is superior and has become one of the Corporation's competitive advantages. A team of business users and system professionals work together on a continual basis upgrading and enhancing the system to ensure it remains a competitive advantage for the Corporation.

GROWTH AND DIVERSIFICATION

In the early 1990s, SGI CANADA formed SGI CANADA Insurance Services Ltd. (SCISL), a subsidiary of SGI CANADA, to sell insurance in other Canadian jurisdictions. Growth outside Saskatchewan was sought to spread geographic insurance risk, grow the revenue base and maintain and create jobs in the province. Prior to the formation of SCISL, SGI CANADA derived 100% of its revenue from Saskatchewan with a significant share of the market and very limited growth opportunities. SCISL began operations by obtaining a licence in Manitoba in 1993. Since this market was similar to Saskatchewan, growth was achieved using the same model as SGI CANADA, appointing quality brokers one at a time and following disciplined underwriting practices. The goal was careful, controlled growth and development of a strong relationship with local brokers. At the end of 2003, SCISL's Manitoba direct premiums were over $11.0 million.

Since SCISL lacked underwriting experience outside the Prairie provinces, the growth strategy in other provinces was through acquisition and Jan. 1, 2001, SCISL purchased 75% ownership in the Insurance Company of Prince Edward Island (ICPEI). The other 25% shareholder is from Prince Edward Island and has extensive experience in this market. ICPEI provides the underwriting expertise, while SCISL provides the infrastructure such as computer systems, reinsurance and accounting. ICPEI currently writes nearly $10.0 million of primarily auto and personal lines direct premiums in Prince Edward Island, with a small component in New Brunswick.

SCISL obtained an insurance licence in Ontario in 1995, however, growth was limited. To advance growth in this market, SCISL acquired Coachman Insurance Company of Ontario (Coachman) on July 1, 2001. Coachman's network of brokers has been leveraged to expand the product line in 2003. Coachman currently writes over $20.0 million of direct automobile premiums and $4.0 million of direct property premiums in Ontario.

Expansion into other provinces has decreased SGI CANADA's concentration of risk in the Saskatchewan market, grown the revenue base, maintained existing jobs and created new jobs in Saskatchewan. Premiums from outside Saskatchewan now account for approximately 20% of total consolidated premium revenue for SGI CANADA.

MEASURING SUCCESS

Financial success at SGI CANADA is measured by the Corporation's ability to provide an above average return on the equity invested by the shareholder. SGI CANADA's target is to have (on average) a return on equity that is higher than the insurance industry average. Historically, SGI CANADA's market knowledge has resulted in success in achieving this target.

To be able to deliver this above average return on equity, the Corporation must be able to deliver highly valued service to its customers. SGI CANADA surveys its brokers annually, as well as being a part of a periodic Insurance Brokers' Association of Saskatchewan survey. These surveys are analyzed to determine areas of strength and weakness and followed up with brokers to ensure we continue to deliver quality service.

Another critical area of customer service is in the claim handling process. While the activity that created the claim is not a positive situation for a customer, if the claim is handled with professionalism and courtesy, it can leave a strong impression with the consumer, creating a satisfied and loyal customer. Conversely, if the claim is not handled properly, it can lead to a dissatisfied customer who may spread word of the poor experience to others. To ensure the Corporation is maintaining its focus on customer service in the claim handling process, semi-annual surveys are sent to customers that have recently had a claim. These surveys are analyzed to determine if any issues exist that should be addressed through changes in claim handling policies or procedures.

SGI CANADA places a great deal of importance on the continual education and training of employees. Both technical and customer service training are emphasized at SGI CANADA. Providing these tools to employees leads to highly valued customer service from employees who have expertise to properly underwrite risks and adjust claims. Training is evaluated on an ongoing basis to ensure it provides employees with enhanced skills required to achieve the Corporation's vision.

OVERVIEW OF 2003 OPERATIONS

The net profit in 2003 is $21.2 million compared to an $8.8 million loss in 2002, an improvement of $30.0 million. The income from Saskatchewan operations was $20.0 million, $17.7 million more than 2002, while income from operations outside of Saskatchewan was $1.3 million in 2003, compared to a 2002 loss of $13.5 million. Product changes made over the last several years and a hardening of the insurance markets resulted in an underwriting profit of $2.6 million ($24.9 million higher than the 2002 underwriting loss of $22.3 million).

Management Discussion and Analysis

The following table summarizes the revenue and operating costs for 2003 and 2002 for the Corporation's operating segments.

SEGMENTED INCOME STATEMENTS

(thousands of $)

2003	SGI CANADA	Coachman	SCISL	ICPEI	Consolidated
Premiums written	$209,861	$ 19,784	$ 10,096	$ 9,284	$249,025
Premiums earned	$194,591	$ 28,432	$ 9,124	$ 8,873	$241,020
Claims incurred	113,465	24,979	5,555	6,193	150,192
Other expenses	74,852	7,591	3,553	2,225	88,221
Underwriting profit (loss)	6,274	(4,138)	16	455	2,607
Investment earnings	13,759	4,466	671	664	19,560
Income before income taxes	20,033	328	687	1,119	22,167
Taxes	–	7	235	435	677
Non-controlling interest	–	–	–	–	288
Net income	$ 20,033	$ 321	$ 452	$ 684	$ 21,202
Loss Ratio	58.3%	87.9%	60.9%	69.8%	62.3%
Expense Ratio	38.4%	26.7%	38.9%	25.1%	36.6%
Combined Ratio	96.7%	114.6%	99.8%	94.9%	98.9%

(thousands of $)

2002	SGI CANADA	Coachman	SCISL	ICPEI	Consolidated
Premiums written	$179,640	$ 32,201 *	$9,203	$ 8,456	$229,500
Premiums earned	$172,312	$ 25,780 *	$6,779	$ 7,204	$212,075
Claims incurred	112,521	30,585 *	4,221	5,185 *	152,512
Other expenses	68,381	8,478	2,877	2,104	81,840
Underwriting loss	(8,590)	(13,283)	(319)	(85)	(22,277)
Investment earnings	10,927	2,552	519	381	14,379
Income (loss) before income taxes	2,337	(10,731)	200	296	(7,898)
Taxes	–	2,964	142	102	3,208
Non-controlling interest	–	–	–	–	(2,343)
Net income (loss)	$ 2,337	$ (13,695)	$ 58	$ 194	$ (8,763)
Loss Ratio	65.3%	118.6%	62.3%	72.0%	71.9%
Expense Ratio	39.7%	32.9%	42.4%	29.2%	38.6%
Combined Ratio	105.0%	151.5%	104.7%	101.2%	110.5%

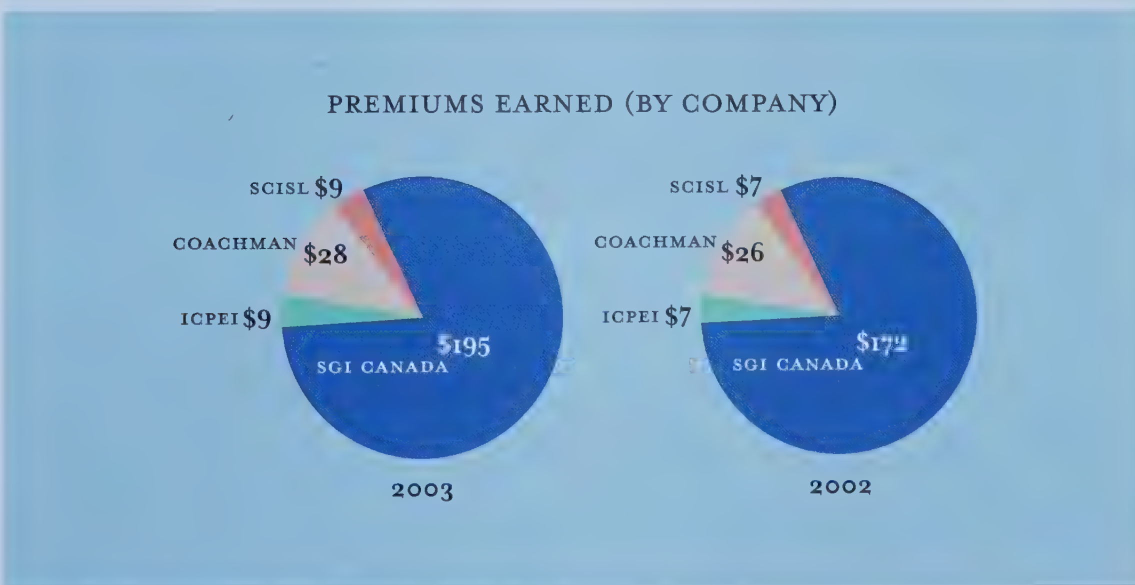
**Net of claim and reinsurance recoveries*

Net Premiums Written

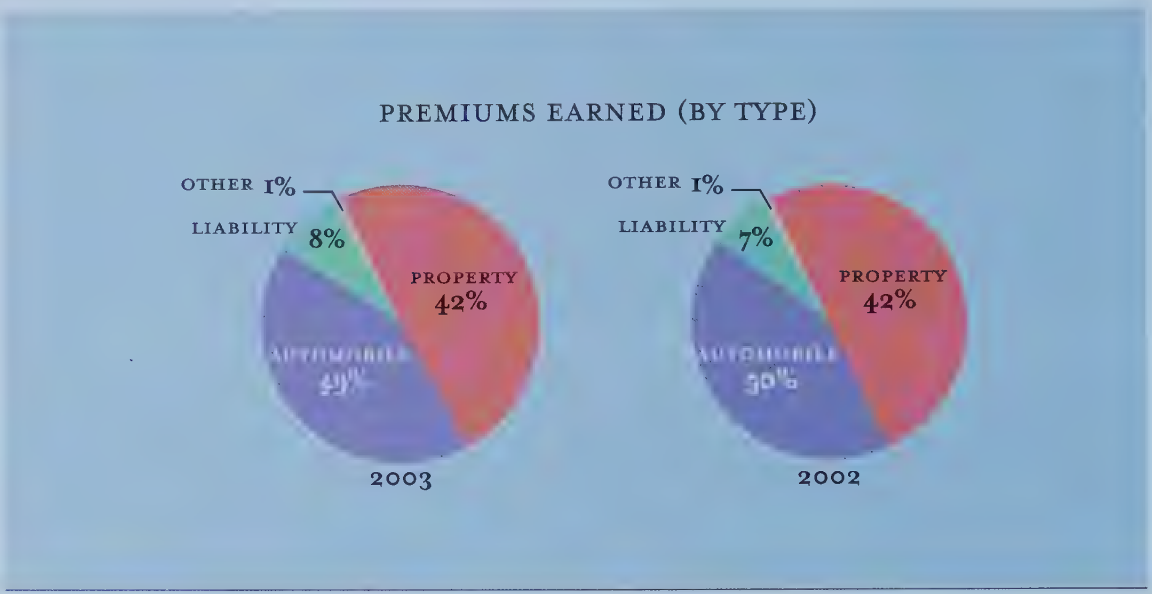
In 2003, premiums written totaled $249.0 million compared to $225.9 million in 2002, an increase of 10.3% or $23.2 million. SGI CANADA Saskatchewan premiums grew significantly, by $30.2 million or 16.8%. ICPEI contributed $828,000 to overall premium growth, SCISL premiums increased by $893,000 and Coachman premiums decreased by $8.8 million primarily due to the movement to six-month policy terms. The transition has reduced the written base in 2003, however, premium levels will return to normal levels in 2004, as the complete book of auto business will have been converted.

Net Premiums Earned

Premiums earned in 2003 were $241.0 million, an increase of $28.9 million or 13.6% from 2002. Premium growth in Saskatchewan contributes $22.3 million, while growth from outside of Saskatchewan was $6.7 million. Coachman premium revenue increased by $2.7 million, SCISL premium revenue increased by $2.3 million and growth in ICPEI premium revenue was $1.7 million in 2003.

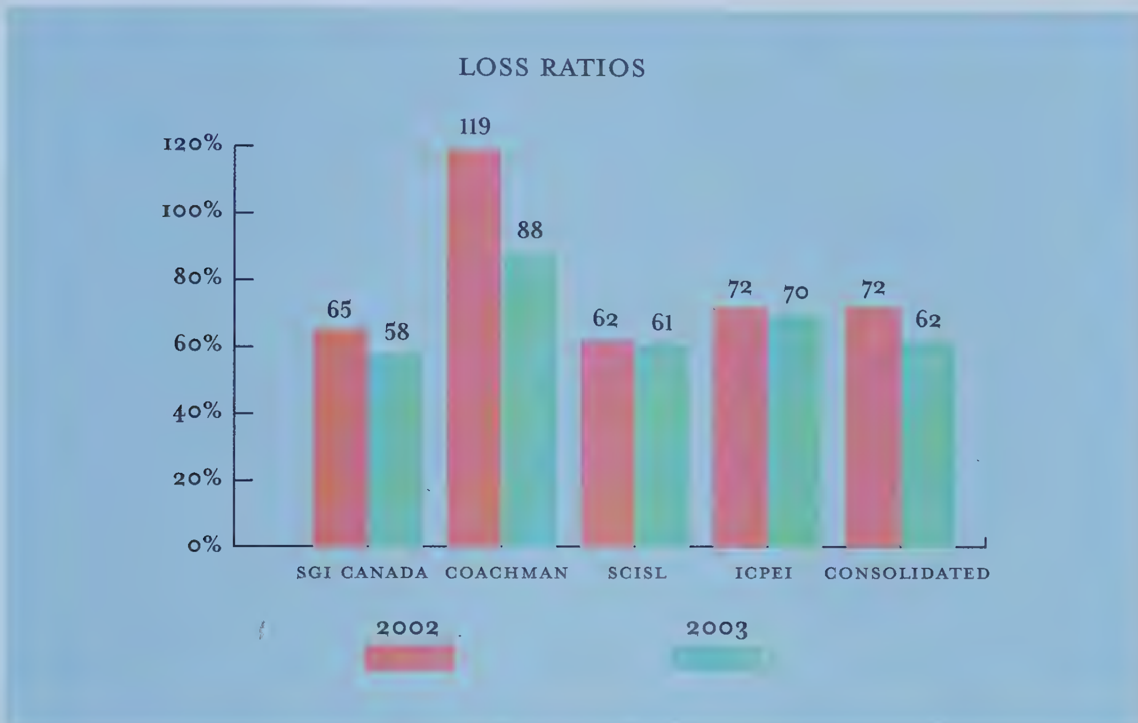


In 2003, automobile premium revenue represents 49% of total premiums, compared to 50% in 2002. The portion of automobile business is slightly lower than the Canadian property and casualty industry total of approximately 53%.



Claims Incurred and Provision for Unpaid Claims

Claim costs in relation to premiums in 2003 have decreased in comparison to 2002 for all operating segments with a consolidated loss ratio of 62% in 2003, a 10% decrease from last year. Coachman's 2003 loss ratio of 88% is a considerable improvement (over 30%) from the 2002 loss ratio of 119%. SGI CANADA's loss ratio decreased by 7% from 65% in 2002 to 58% in 2003, while ICPEI and SCISL claim costs in relation to premiums also decreased slightly.



The Corporation establishes provisions for unpaid claims as they are reported. This provision is adjusted as more information becomes available about the claim. With the assistance of an external actuary, a provision is also established for future development on reported claims and claims that have not yet been reported.

Determining future development on reported claims and unreported claims is based on historical claims experience and other factors such as future inflation expectations, court decisions and economic conditions. The provision for claims that are paid out quickly, such as property claims, are generally easier to determine than claims that take several years to settle, such as liability claims, which can be very difficult to predict. On the current book of business, there was $7.6 million excess in reserves for prior year claims, compared to 2002, which had a deficiency of $4.4 million.

Prior to 1986, the Corporation wrote a book of reinsurance assumed business. Reinsurance assumed is the process of accepting a portion of insurance risks from other insurance companies. While this business has not been written since 1985, some of the business is long term in nature, and the costs are very unpredictable. Therefore, as more information becomes available on these claims, the Corporation has to adjust reserves. When possible, the Corporation commutes portions of the assumed business,

which eliminates all claims exposure. In 2003, there was no change in claims incurred associated with this business compared to a $282,000 increase in 2002. The net provision for unpaid claims relating to this business at the end of 2003 was $10.5 million (2002 - $11.3 million).

In 2003, insurance regulators and the Canadian Institute of Actuaries (CIA) have moved to the same standard of discounting claim liabilities to recognize the time value of money. These financial statements are prepared on a partially discounted basis, and due to the discrepancy between these two methods, the CIA's policy is to provide a qualification in the actuary's report. The Corporation will continue to monitor the industry to determine if the industry standard for external reporting moves towards full discounting of claim liabilities.

Expenses Excluding Claims Incurred

Other expenses of $88.2 million increased by $6.4 million from 2002. However, the overall ratio of other expenses to premiums on a consolidated basis has actually declined slightly to 37% in 2003 from 39% in 2002. Coachman and ICPEI have lower ratios in comparison to SGI CANADA and SCISL due to lower broker commissions on automobile business and due to the nature of automobile insurance, which is not as complex to underwrite, resulting in lower administrative costs than non-auto property and casualty insurance products.

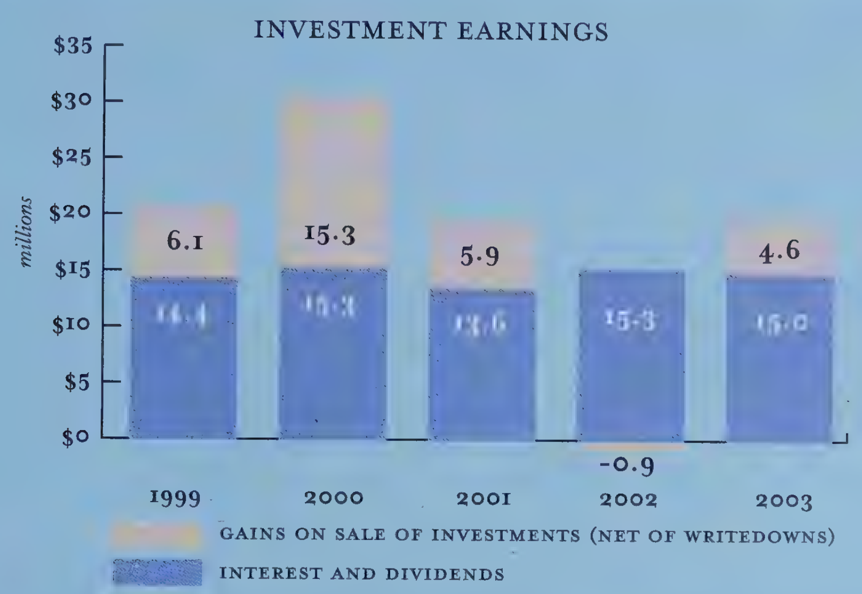
Investment Earnings

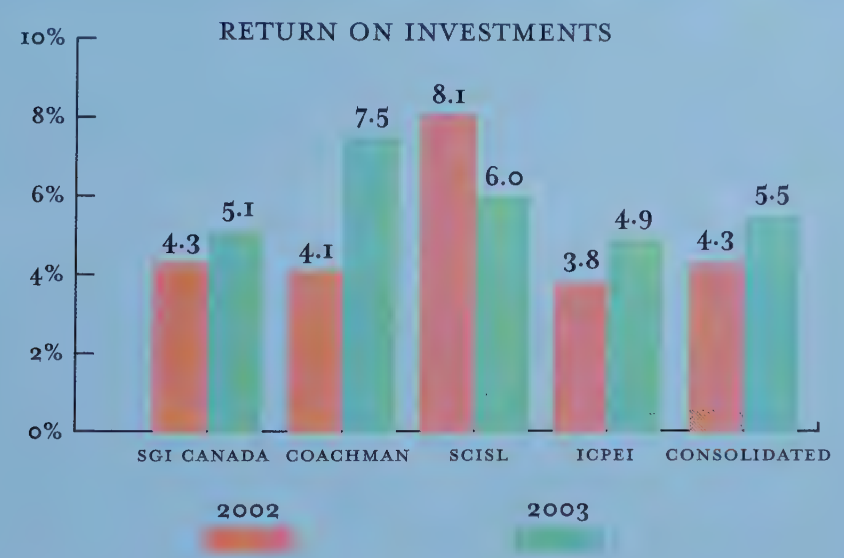
Insurance companies hold funds in reserve for unearned premiums and unpaid claims. These funds, in addition to the company's equity base, form a large pool of assets used for investment purposes. Earnings from the investment portfolio supplement earnings from insurance operations. Because a portion of these funds are held only for short periods, and because of the unpredictability of large cash outflows due to weather, an insurance company must take a more short-term investment approach compared to a pension plan, which invests its funds for longer periods.

The Corporation records only the appreciation in market value of its investments on their sale. This results in unrealized gains in the investment portfolio, which are not recorded in the financial statements. This amount at the end of 2003 was $19.8 million, compared to $12.2 million in 2002.

Consolidated investment earnings in 2003 were $19.6 million, compared to $14.4 million in 2002. Gains on the sale of investments can vary significantly from year to year. The Corporation sustained gains (net of writedowns) on the sale of investments in 2003 of $4.6 million, compared to $904,000 in losses on the sale of investments in 2002.

With the exception of SCISL, the return on investments was higher in 2003 for all operating segments compared to 2002. Contributing to SCISL's higher rate of return in 2002 was gains on the sale of bonds, which were not realized in 2003. The consolidated return on investments in 2003 was 5.5%, an increase of over 1% from the 2002 rate of return.

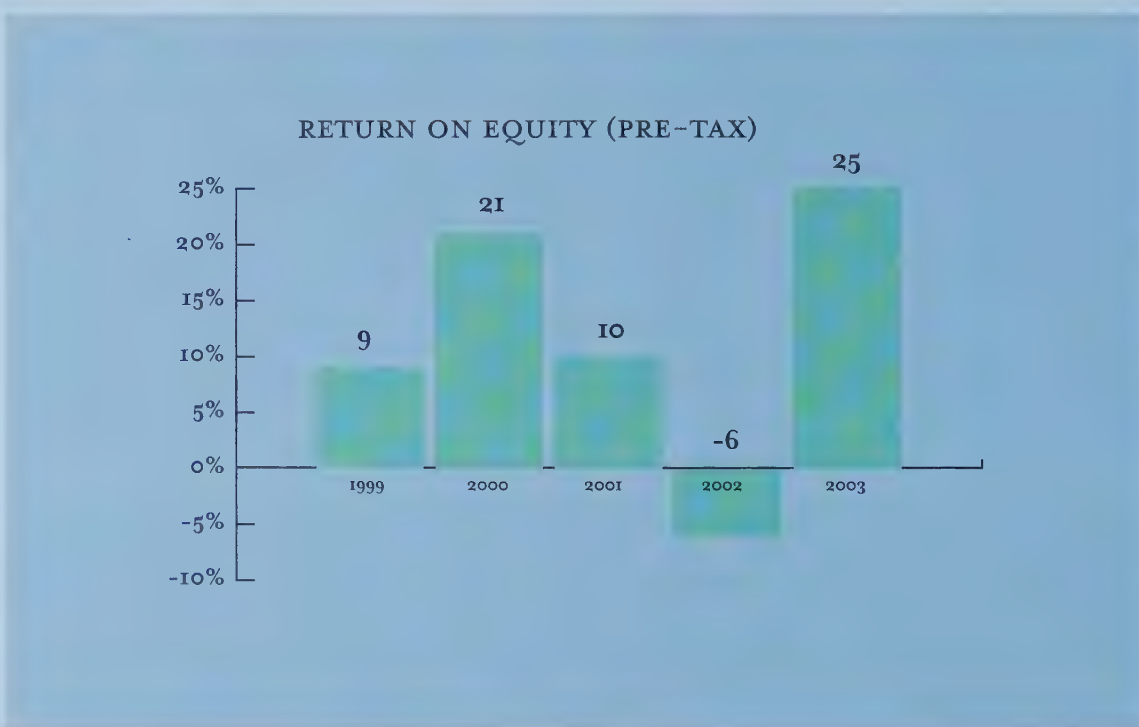

INVESTMENT EARNINGS
$35
$30
$25
$20
$15
$10
$5
$0
millions
6.1
15.3
5.9
4.6
15.3
-0.9
1999
2000
2001
2002
2003
GAINS ON SALE OF INVESTMENTS (NET OF WRITEDOWNS)
INTEREST AND DIVIDENDS


RETURN ON INVESTMENTS
10%
8%
6%
4%
2%
0%
4.3
5.1
4.1
7.5
8.1
6.0
3.8
4.9
4.3
5.5
SGI CANADA
COACHMAN
SCISL
ICPEI
CONSOLIDATED
2002
2003

Management Discussion and Analysis

Performance Measurement Ratios

Return-on-equity is a measurement of profit earned relative to the equity invested by the shareholders of the Corporation. The pre-tax return on equity in 2003 was 25%, compared to negative 6% in 2002. The increase was a result of strong underwriting results combined with a slight increase in investment earnings. SGI CANADA's 10-year average return on equity is 14.3%.



Loss ratio is an insurance industry measurement expressing claims incurred as a percentage of premiums earned. The loss ratio on current operations decreased in 2003 to 62% from 72% in 2002.

The combined ratio is a measurement of total expenses (including claims) in relation to premiums earned. Insurance companies attempt to achieve a ratio of less than 100%, which would result in an underwriting profit. The Corporation succeeded in 2003 with a combined ratio of 99%, which is lower than the projected industry average of 103%. With the exception of 2002, SGI CANADA's combined ratio has remained lower than the industry average in the last five years.

Net risk ratio is an industry measurement, which is the ratio of net premiums written to equity, and gives some indication of a company's financial strength to support the insurance business that it writes. The lower the ratio, the better the insurance company's financial resources can withstand adverse underwriting results. The net risk ratio in 2003 was 2.3 (2002 - 2.1). The regulatory guideline is 3.0 or lower.

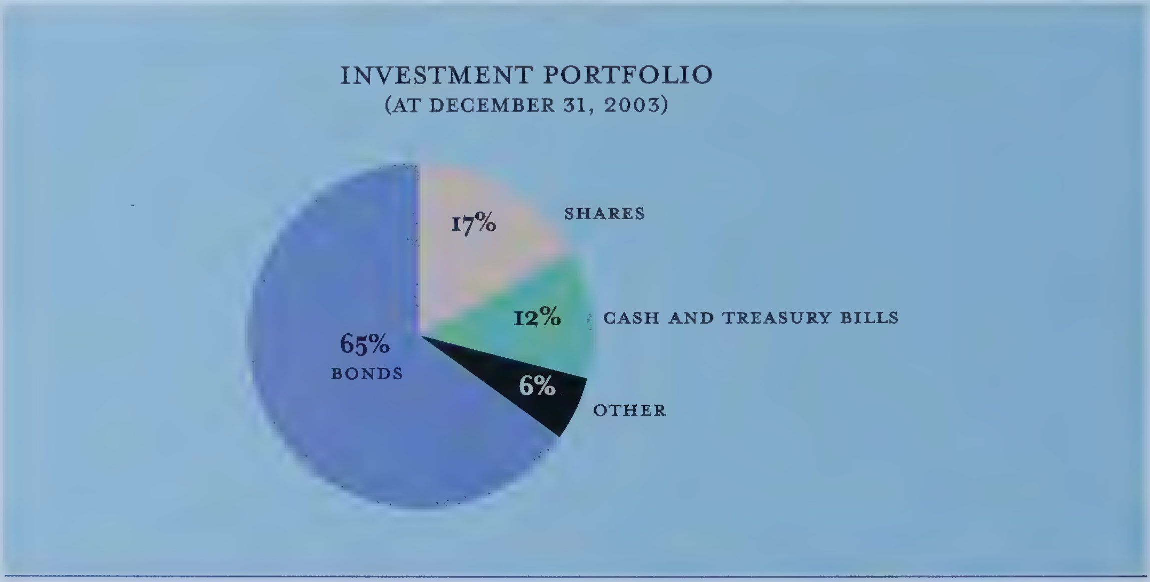
Reinsurance

Reinsurance is the process of passing part of a risk or risks from one insurance company to another insurance company (the reinsurer). Two of the key reasons for reinsuring are increasing the insurance company's capacity to write business and providing greater stability by reducing fluctuations in financial results due to large individual losses or catastrophic events.

The Corporation purchases a variety of proportional and excess reinsurance contracts that provide coverage on a per risk or per event basis to limit exposure from large single losses or catastrophic events. Reinsurers are carefully selected with an emphasis on continuity and long-term relationships. Solvency of reinsurers is paramount in this process.

Liquidity

Given the Corporation's reinsurance program to protect against major catastrophes and its liquid investment portfolio, the Corporation is confident there is sufficient cash to meet all financial obligations as they fall due. In 2003, cash inflows from insurance operations provided $42.1 million in cash compared to $12.1 million in 2002. As of Dec. 31, 2003, the Corporation's investment base was $338.4 million, consisting mainly of treasury bills, government and corporate bonds and common shares of Canadian companies.



Risk Management

Corporate risk management is a dynamic process. The Corporation has identified potential risks that the Corporation faces. These risks are evaluated as to consequence, severity and likelihood and then analyzed to determine what mitigating steps were taken to reduce the inherent risk. Mitigating strategies have reduced to acceptable levels, the impact of the high risks or the likelihood of the risk occurring. This in-depth risk assessment is conducted on a semi-annual basis and presented to the Audit and Finance Committee of the Board of Directors.

The following issues and risks, among others, should be considered when evaluating the Corporation:

Privacy Management Program

The implementation of privacy legislation has led to the development of a privacy management framework within the Corporation. The framework calls for a staged action plan to meet legislative requirements imposed by the *Freedom of Information and Protection of Privacy Act* and other privacy legislation. It will ensure that policies and practices are in place to protect privacy and personal information.

Business Interruption

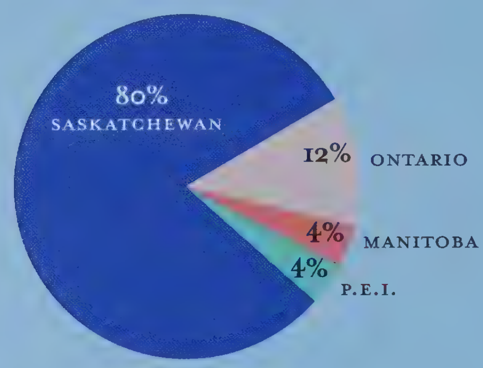
The Corporation has developed a business continuity plan to ensure that essential services for customers are maintained. The plan includes an alternate computing services site across the street from the Regina head office building that houses servers for the Corporation's major applications. It can be instantly activated and accommodates short-term disruptions. The contract for the alternate site expires in 2005 and an option for a new site is under review.

Catastrophe Exposure

Property and casualty insurers are subject to losses arising from catastrophic events. With the Corporation having a significant portion of the Saskatchewan property insurance market, it is susceptible to large losses from major storms in Saskatchewan. To contain this risk, the Corporation purchases catastrophe reinsurance protection that reduces the potential impact from major losses as a result of catastrophic events. While the Corporation has a heavier geographic concentration of risk than other major insurance companies in Canada, it is less susceptible than other insurance companies to catastrophes from earthquakes and hurricanes because of the location of its insurance business.

To reduce the concentration of risk, the Corporation began expanding into other Canadian provinces in the early 1990s through its subsidiary, SCISL. The percentage of premium revenue from Saskatchewan business was 80% at the end of 2003.

2003 PREMIUMS EARNED BY PROVINCE



Competition

The insurance industry in Canada is very competitive and continues to underwrite its insurance operations at a loss. As well, prices in the industry can be very cyclical. When rates become profitable, some insurers begin dropping rates to obtain market share and will reduce rates to unprofitable levels. The Corporation's strategy is to maintain its underwriting principles. This may result in some reduction in business until prices return to acceptable levels. Competition also exists from insurers with different distribution channels, such as direct writers.

Provision for Unpaid Claims

The Corporation maintains a provision for unpaid claims to cover its liability for future payments on these claims. The provision includes an estimate for future development on reported claims and an estimate for claims that have not yet been reported to the Corporation. These provisions are estimates, and the ultimate payment on these claims may differ from the estimate.

Investment Returns

The majority of the Corporation's profit is derived from the investment portfolio. Returns from capital markets are uncertain and fluctuate from year to year. To mitigate the fluctuations, the Corporation maintains a well-diversified investment portfolio and utilizes the services of two investment managers.

Each investment manager follows the guidelines established in the Investment Policy and Objectives, which provides the manager with a guideline for the quality, quantity and rate of return standards for the portfolio. The Investment Policy and Objectives for each fund manager are reviewed annually by management and approved by the Board of Directors. Fund managers produce quarterly reports on the performance of assets under their management that are reviewed by corporate management and the Investment Committee of the Board of Directors. As well, the Corporation utilizes the services of an investment consultant to independently review and report on the performance of the investment managers.

LOOKING FORWARD

The major initiatives taken at Coachman to restore profitability proved successful in 2003, returning the company to profitability in one year. Growth in the property and casualty business in Ontario will continue as the network of Coachman brokers are leveraged for expansion into the personal and commercial property market in 2004.

The Corporation had a remarkable turnaround in 2003, not only by realizing a profit of over $21 million and a pre-tax return on equity of 25%, but also by having profitable operations in all provinces that the Corporation competes in. SGI CANADA's successful business strategy of disciplined underwriting and controlled growth will continue going forward.

Responsibility for Financial Statements

The consolidated financial statements are the responsibility of management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of Saskatchewan Government Insurance (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The consolidated financial statements have been examined and approved by the Board of Directors. An Audit Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, KPMG have been appointed external auditors. Their responsibility is to report to the Members of the Legislative Assembly regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the consolidated financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

Larry Fogg
President

John Dobie
Vice President Finance

February 13, 2004

Actuary's Report

To the Board of Directors of
Saskatchewan Government Insurance

I have valued the policy liabilities of SGI CANADA for its consolidated statement of financial position at December 31, 2003 and their change in the consolidated statement of operations and retained earnings for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Management required that the valuation of some policy liabilities not reflect the time value of money. My valuation complies with that practice.

In my opinion, except as noted in the previous paragraph, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the results of the valuation.

Richard Gauthier
Fellow, Canadian Institute of Actuaries

February 13, 2004

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Government Insurance as at December 31, 2003 and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada

February 13, 2004

Consolidated Statement of Financial Position

December 31	2003	2002
	(thousands of $)	
Assets		
Cash and treasury bills (note 3)	$ 41,789	$ 30,280
Accounts receivable (note 4)	67,366	70,491
Deferred policy acquisition costs	32,854	28,210
Future income taxes (note 13)	1,180	1,223
Unpaid claims recoverable from reinsurers (note 8)	24,782	30,467
Reinsurers' share of unearned premiums	7,296	7,129
Investments (note 5)	293,628	268,255
Net investment in capital lease (note 6)	2,996	3,264
Goodwill	481	481
Property, plant and equipment (note 7)	9,967	10,893
	$482,339	$450,693
Liabilities		
Accounts payable and accrued charges	$ 14,168	$ 12,870
Dividend payable	5,664	–
Future income taxes (note 13)	1,007	572
Premium taxes payable	11,637	10,057
Amounts due to reinsurers	5,218	5,097
Provision for unpaid claims (note 8)	211,128	206,155
Unearned reinsurance commissions	1,442	1,278
Unearned premiums	137,366	127,664
	387,630	363,693
Non-controlling interest	**2,205**	1,916
Province of Saskatchewan's equity		
Equity advances (note 9)	55,000	55,000
Retained earnings	37,504	30,084
	92,504	85,084
	$482,339	$450,693

(see accompanying notes)

Consolidated Statement of Operations and Retained Earnings

Year ended December 31	2003	2002
	(thousands of $)	
Gross premiums written	$272,402	$246,980
Net premiums written	$249,025	$225,856
Net premiums earned (note 10)	**$241,020**	$212,075
Claims incurred (note 10 & 11)	150,192	152,514
Commissions (note 10)	46,503	41,780
Premium taxes (note 10)	11,593	10,244
Administrative expenses (note 10)	29,062	29,147
Facility Association participation (note 18)	1,063	667
Total claims and expenses	**238,413**	234,352
Underwriting profit (loss)	**2,607**	(22,277)
Investment earnings (note 12)	19,560	14,379
Income (loss) before taxes and non-controlling interest	**22,167**	(7,898)
Current income tax expense (note 13)	143	–
Future income tax expense (note 13)	478	3,152
Capital taxes	56	56
Income (loss) after taxes and before non-controlling interest	**21,490**	(11,106)
Non-controlling interest	288	(2,343)
Net income (loss)	**21,202**	(8,763)
Retained earnings, beginning of year	30,084	38,847
Dividend	(13,782)	–
Retained earnings, end of year	**$ 37,504**	$ 30,084

(see accompanying notes)

Consolidated Statement of Cash Flows

Year ended December 31	2003	2002
	(thousands of $)	
Cash provided by (used for):		
Operating activities		
Net income (loss)	$ 21,202	$ (8,763)
Non-cash items:		
Amortization	3,226	3,365
Realized gain on disposal of investments and capital assets	(5,322)	(1,978)
Investment write downs	741	2,903
Income (loss) attributable to non-controlling interest	288	(2,343)
Income from equity investments	(255)	(28)
Change in non-cash operating items (note 14)	22,315	18,950
	42,195	12,106
Investing activities		
Purchases of investments	(485,522)	(418,498)
Proceeds on sale of investments	464,324	409,346
Repayment of capital lease	268	243
Purchases of capital assets	(821)	(229)
	(21,751)	(9,138)
Financing activities		
Preferred share purchase in ICPEI	–	(400)
Dividends paid	(8,117)	(575)
	(8,117)	**(975)**
Increase in cash and cash equivalents	**12,327**	**1,993**
Cash and cash equivalents:		
Balance, beginning of year	16,763	14,770
Balance, end of year	**29,090**	16,763
Plus treasury bills greater than 91 days to maturity from acquisition date	**12,699**	13,517
Cash and treasury bills per statement of financial position	**$ 41,789**	$ 30,280

(see accompanying notes)

Notes to the Consolidated Financial Statements

December 31, 2003

1. STATUS OF THE CORPORATION

Saskatchewan Government Insurance (the Corporation), which operates under the trade name of SGI CANADA, was established as a branch of the Public Service by the *Government of Saskatchewan Insurance Act*, 1944, reorganized pursuant to the *Saskatchewan Government Insurance Act*, 1946, and continued under the provisions of the *Saskatchewan Government Insurance Act*, 1980.

The Corporation conducts a property/casualty insurance business in the Province of Saskatchewan under the provisions of its Act and also acts as administrator of the Saskatchewan Auto Fund (the Fund) under the provisions of the *Automobile Accident Insurance Act*.

As a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), the financial results of the Corporation are included in the consolidated financial statements of CIC. The Corporation is a provincial Crown corporation and as a result is not subject to federal or provincial income taxes. The Corporation's subsidiary, SGI CANADA Insurance Services Ltd. (SCISL), which operates in provinces other than Saskatchewan, is subject to federal and provincial income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Corporation are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Consolidation

The consolidated financial statements include the accounts of the Corporation and the consolidated accounts of its 91% (2002 – 84%) owned subsidiary, SCISL. All inter-company accounts and transactions have been eliminated on consolidation.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Goodwill

The excess of the purchase price of acquired businesses over the net of the amounts assigned to assets acquired and liabilities assumed is recognized as goodwill. All goodwill acquired in a business combination is allocated to one or more of the Corporation's reporting units as at the date of acquisition.

The goodwill of a reporting unit is tested for impairment on an annual basis. The impairment test can be done between annual tests if an event or circumstance occurs that more likely than not impairs the asset. The goodwill impairment test has two steps. In the first step, the carrying amount of each reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered to be not impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of the reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. Any impairment losses arising from the annual tests are charged to income.

Investments

Bonds, debentures and mortgages are recorded at amortized cost. Treasury bills, common shares, preferred shares and pooled funds are recorded at cost. Dividends on common shares are recognized as income on their record dates. Gains and losses on the sale of investments are recognized on the date of trade.

Where the Corporation has investments in shares and exercises significant influence, the investments are accounted for on the equity basis and the Corporation's investment is adjusted for its share of the investee's net earnings or losses and reduced by dividends received.

Investments are written down when there is a decline in value that is other than temporary.

Capital lease

Investment earnings related to the direct financing lease are recognized in a manner that produces a constant rate of return on the investment in the lease. The net investment in the lease is composed of net minimum lease payments less unearned finance income.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives as follows:

Building	2 1/2%
Computer hardware, system costs and other equipment	20 - 33 1/3%

Notes to the Consolidated Financial Statements

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. Included in the estimate are reported claims, claims incurred but not reported and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting except for long-term disability claims. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Premiums

Premiums written are taken into income over the terms of the related policies. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes payable for the current year. Future income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Foreign currency translation

Monetary items denominated in foreign currency are translated at the exchange rate in effect at the year end. Investments, revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year.

Cash and cash equivalents

Cash and cash equivalents in the cash flow statement consist of cash on hand and treasury bills with a maturity of 91 days or less from the date of acquisition.

Pension costs and obligations

The Corporation maintains a defined benefit pension plan and a defined contribution pension plan that provide retirement benefits for its employees.

For the defined benefit plan:

(i) For the purpose of calculating the expected return on plan assets, those assets are valued at market value, which approximates fair value.
(ii) Pension obligations are determined by an independent actuary using the projected benefit method prorated on service and management's best estimate assumptions of expected plan investment performance, salary escalation, age at retirement, mortality of members and future pension indexing, based upon the consumer price index.
(iii) The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date of high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.
(iv) Past service costs from plan amendments and the transitional asset are amortized on a straight-line basis over a period of time which is a blending of the expected average remaining service lifetime of the active members and the future life expectancy of the pensioners.
(v) The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets is amortized over a period of time which is a blending of the expected average remaining service lifetime of the active members and the future life expectancy of the pensioners.

3. CASH AND TREASURY BILLS

Cash and treasury bills, which comprise treasury bills and commercial paper, have an average effective interest rate of 2.8% (2002 – 2.8%) and an average remaining term to maturity of 62 days (2002 – 49 days). The Corporation's investment policy states that securities investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the short-term portfolio.

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	(thousands of $) 2003	2002
Financed premiums receivable	$27,519	$29,063
Due from brokers	25,232	24,885
Facility Association receivable	4,512	1,747
Due from reinsurers	2,848	2,018
Accrued investment income	2,639	1,800
Due from self-insured retentions	1,275	1,285
Amounts recoverable on claims paid	1,043	652
Computer purchase receivable	587	674
Investment receivable	536	3,244
Prepaid expenses	533	861
Due from parent	–	3,860
Other	642	402
Total accounts receivable	$67,366	$70,491

5. INVESTMENTS

The components of the Corporation's investments are as follows:

	(thousands of $) 2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds and debentures	$218,481	$223,092	$146,579	$151,829
Pooled bond fund	–	–	44,498	46,032
Common shares	45,332	60,070	48,280	54,150
Preferred shares	343	344	608	629
Pooled equity fund	11,677	11,613	11,460	10,297
Mortgages	14,430	14,947	13,697	14,381
	290,263	310,066	265,122	277,318
Investments accounted for on an equity basis	3,365	3,365	3,133	3,133
Total investments	$293,628	$313,431	$268,255	$280,451

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

(i) Bonds and debentures:

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of investment assets for corporate bonds and debentures and 20% for bonds and debentures issued by any one province. A minimum of BBB is placed on the investment grade of bonds and debentures that may be purchased.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal value and therefore the average effective rates are not materially different from the coupon rates. Interest is generally receivable on a semi-annual basis.

	(thousands of $)			
	2003		2002	
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
One or less	$ 52	6.5%	$ –	–
After one through five	81,604	4.5%	43,469	4.6%
After five	39,516	5.5%	35,850	5.8%
Canadian provincial & municipal:				
After one through five	19,538	5.9%	8,611	6.3%
After five	17,141	5.8%	18,216	5.9%
Canadian corporate:				
One or less	510	5.3%	–	–
After one through five	43,309	5.4%	24,226	6.0%
After five	16,811	6.3%	16,207	6.8%
Total bonds & debentures	$218,481		$146,579	

(ii) Pooled bond fund:

The Corporation owns units in a Canadian pooled bond fund that has no fixed interest rate. Its returns are based on the success of the fund manager and future interest rates. During 2003 the Corporation sold all of its pooled bond fund holdings in the normal course of business.

(iii) Pooled equity fund:

The Corporation owns units in an international pooled equity fund that has no fixed interest rate. Its returns are based on the success of the fund manager.

(iv) Common shares:

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 1.8% (2002 – 1.7%).

Common shares include $12,075,000 (2002 – $9,146,000) denoted in United States dollars.

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Corporation's common shares. As well, no one holding may represent more than 10% of the voting shares of any corporation.

(v) Preferred shares:

Preferred shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 4.6% (2002 – 5.3%).

(vi) Mortgages:

The mortgage portfolio consists entirely of Canadian commercial mortgages with average effective interest rates of 7.0% (2002 – 7.6%) with an average maturity of 4.2 years (2002 – 3.7 years). Principal and interest is receivable on a monthly basis.

(vii) Investments accounted for on the equity basis:

The Corporation has 9% ownership in a crop hail insurance business and indirectly controls an additional 27% of the business through preferred share ownership in other crop hail insurance companies.

Through a subsidiary, the Corporation has 25% ownership in three companies consisting of Charlie Cooke Insurance Agency Ltd., Atlantic Adjusting & Appraisals Ltd. and Maritime Finance & Acceptance Corporation.

6. NET INVESTMENT IN CAPITAL LEASE

The Corporation, as lessor, has a 37% interest in a lease agreement with Saskatchewan Property Management Corporation, a related party, for a term of 30 years (expiring April 2011) on property in Prince Albert, Saskatchewan. The lease transfers substantially all benefits and risks incident with the ownership of the property to the lessee.

The Corporation's net investment in the capital lease includes the following:

	(thousands of $) 2003	2002
Total minimum lease payments receivable ($583,000 per year)	$ 4,227	$ 4,810
Unearned income	(1,231)	(1,546)
Net investment in capital lease	$ 2,996	$ 3,264

The fair value of the net investment in the capital lease is $3,717,000 (2002 – $4,070,000).

7. PROPERTY, PLANT AND EQUIPMENT

The components of the Corporation's investment in property, plant and equipment, as well as the related accumulated amortization, are as follows:

	(thousands of $) 2003			2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 972	$ –	$ 972	$ 972
Building	18,978	11,514	7,464	7,846
Computer hardware, system costs and other equipment	16,247	14,716	1,531	2,075
Total	$ 36,197	$ 26,230	$ 9,967	$ 10,893

Amortization for the year is $1,747,000 (2002 – $2,719,000).

8. PROVISION FOR UNPAID CLAIMS

(i) Nature of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a large variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists for reported claims that have not been settled, as all the necessary information may not be available at the date of the statement of financial position.

Factors used to estimate the provision include: the Corporation's experience with similar cases, historical trends involving claim payments, the characteristics of the class of business, claim severity and claim

frequency such as those caused by natural disasters, the effect of inflation on future claims, court decisions and economic conditions.

Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as property claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a large number of individuals, which necessarily involves risk that the actual results may differ materially from the estimates.

The Corporation settles some long-term disability claims by purchasing structured settlements from various financial institutions. As part of the settlement, the Corporation provides a financial guarantee to claimants in the event the institutions default on scheduled payments. The net present value of these expected payments as of the statement of financial position date total $47,480,000 (2002 – $47,178,000).

Included in the gross provision for unpaid claims is a provision for unpaid reinsurance assumed claims of $10,477,113 (2002 – $11,294,000). The Corporation discontinued its practice of underwriting reinsurance assumed business in 1985, but remains financially responsible for claims run-off on assumed contracts.

Changes in the estimate for the provision for unpaid claims are as follows:

	(thousands of $)	
	2003	2002
Net unpaid claims – beginning of year	$ 175,688	$ 160,244
Provision for self-insured retention	(1,285)	(705)
Payments made during the year relating to prior year claims	(51,614)	(54,297)
(Excess) deficiency relating to prior year estimated unpaid claims:		
Direct business	(7,575)	4,387
Reinsurance assumed business	114	282
Net unpaid claims for claims of prior years	115,328	109,911
Provision for claims occurring in the current year	71,018	65,777
Net unpaid claims – end of year	$ 186,346	$ 175,688

(ii) Type of unpaid claims:

The provision for unpaid claims is summarized by line of business as follows:

(thousands of $)	2003			2002		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Automobile	$129,065	$ 19,115	$109,950	$127,978	$ 20,268	$107,710
Property	34,355	2,598	31,757	27,934	2,150	25,784
Liability	37,231	3,069	34,162	38,948	8,049	30,899
Assumed	10,477	–	10,477	11,295	–	11,295
Total	$211,128	$ 24,782	$186,346	$206,155	$ 30,467	$175,688

9. EQUITY ADVANCES

The Corporation does not have share capital. However, the Corporation has received equity advances from its parent, CIC, to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

10. UNDERWRITING POLICY AND REINSURANCE CEDED

The Corporation seeks to reduce losses that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurers. The policy of underwriting and reinsuring contracts of insurance, in the main, limits the liability of the Corporation to a maximum amount on any one loss as follows:

(thousands of $)	2003	2002
Dwelling and farm property	$ 400	$ 400
Unlicensed vehicles	500	500
Commercial property	1,000	1,000
Automobile and general liability	1,000	1,000
(subject to filing an annual aggregate of)	500	500
Property catastrophe	7,500	7,500

The Corporation evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency. The following table sets out the amount by which reinsurance ceded has reduced the premiums earned, claims incurred, commissions, premium taxes and administrative expenses:

	(thousands of $)	
	2003	2002
Premiums earned	$21,773	$20,090
Claims incurred	4,054	26,526
Commissions and premium taxes	2,139	1,654
Administrative expenses	932	780

11. CLAIM DEVELOPMENT RECOVERY

The Corporation acquired 75% of the outstanding shares of the Insurance Company of Prince Edward Island (ICPEI) for cash of $2,770,000 on Jan. 1, 2001 through its subsidiary, SCISL. A recovery on prior year claim development was negotiated as part of the purchase agreement whereby the previous owner will refund to SCISL an amount equal to 75% of any unfavourable development on claims in ICPEI with loss dates prior to 2001. Conversely, SCISL will pay to the previous owner an amount equal to 75% of favourable development on claims with loss dates prior to 2001. The payment in both instances is subject to a $100,000 deductible and is calculated after tax. This agreement is in effect until Dec. 31, 2003 with payment to be made by March 31, 2004. In 2003, unfavourable development on these prior year claims has resulted in a reduction to claims incurred and a related receivable in the amount of $4,000 (2002 – $72,000). The total receivable at Dec. 31, 2003 is $537,000 (2002 – $533,000).

On July 1, 2001 the Corporation acquired 100% of the outstanding shares of Coachman Insurance Company (Coachman) through its subsidiary, SCISL for cash of $8,185,000. Of the original investment of $8,185,000, $2,700,000 was held in a trust account by the Corporation's legal counsel as a holdback for recovery of unfavourable claim development on claims with loss dates prior to April 30, 2001. This agreement was in effect until Dec. 31, 2002 and final payment of $2,700,000 was received in March 2003.

The Corporation has purchased adverse claim development reinsurance for pre-April 30, 2001 claims in Coachman. The reinsurance has a $3.0 million deductible and provides coverage up to $8.0 million. In the current year, development on prior year claims has resulted in a reduction to claims incurred and a related receivable in the amount of $1,945,000 (2002 – $1,101,000). The total receivable at Dec. 31, 2003 is $3,046,000 (2002 – $1,101,000).

12. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of $)	
	2003	2002
Interest and dividends	$12,665	$13,229
Realized gain on sale of investments	5,344	1,999
Income from financing	1,722	1,685
Income from capital lease	315	341
Income from equity investments	255	28
Investment write downs	(741)	(2,903)
Total investment earnings	$19,560	$14,379

Investment write downs by category:

	(thousands of $)	
	2003	2002
United States common shares	$ (266)	$ (705)
Canadian common shares	(262)	(1,034)
Canadian bonds	(213)	–
Non-North American pooled equity fund	–	(1,164)
Total investment write downs	$ (741)	$ (2,903)

13. INCOME TAX

The Corporation's provision for income taxes is as follows:

	(thousands of $)	
	2003	2002
Current	$ 143	$ –
Future	478	3,152
Total income tax expense	$ 621	$ 3,152

Notes to the Consolidated Financial Statements

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes. The reasons for the differences are as follows:

	(thousands of $)	
	2003	2002
Net income (loss) before income taxes from taxable subsidiaries	$ 2,134	$(11,228)
Combined federal and provincial tax rate	40.12%	42.62%
Computed tax expense based on combined rate	$ 856	$ (4,785)
Increase (decrease) resulting from:		
Investment earnings not subject to taxation	(48)	(1,243)
Adjustment to future tax assets for enacted changes in tax laws and rates related to non-capital losses	1,451	2,060
Adjustment to future tax assets and liabilities for enacted changes in tax laws and rates	(411)	(635)
Difference in tax rates between subsidiaries and parent	(11)	568
Valuation allowance	(1,218)	7,140
Other	2	47
Total income tax expense	$ 621	$ 3,152

The components of future income tax balances are as follows:

	(thousands of $)	
	2003	2002
Tax loss carryforward	$ 7,970	$ 6,997
Provision for unpaid claims	1,522	1,243
Other	46	123
	9,538	8,363
less: valuation allowance	(8,358)	(7,140)
Future income tax assets	1,180	1,223
Bonds and debentures	604	238
Unpaid claims recoverable from reinsurers	403	327
Other	–	7
Future income tax liabilities	1,007	572
Net future income taxes	$ 173	$ 651

The Corporation has non-capital loss carryforwards of approximately $22,065,000 (2002 – $23,156,000) that expire on dates ranging from 2007 to 2009.

14. CASH FLOWS

The change in non-cash operating items is comprised of the following:

	(thousands of $)	
	2003	2002
Change in non-cash operating items:		
Accounts receivable	$ 3,125	$(15,378)
Deferred policy acquisition costs	(4,644)	(1,888)
Unpaid claims recoverable from reinsurers	5,685	(17,787)
Reinsurers' share of unearned premiums	(167)	(1,190)
Future income taxes	478	3,158
Accounts payable and accrued charges	1,298	1,261
Premium taxes payable	1,580	1,029
Amounts due to reinsurers	121	980
Provision for unpaid claims	4,973	33,231
Unearned reinsurance commissions	164	172
Unearned premiums	9,702	15,362
	$ 22,315	$ 18,950

15. PENSION PLANS

The Corporation has a defined benefit pension plan for certain of its employees that has been closed to new membership since 1980. Current service costs of this plan are charged to earnings on the basis of actuarial valuations, the most recent valuation being as of Dec. 31, 2002. The plan and the valuation results of the plan includes both employees of the Corporation and the Saskatchewan Auto Fund.

The actuarial valuation includes a provision for uncommitted and ad hoc benefit increases, and is measured using management's best estimates based on assumptions that reflect the most probable set of economic circumstances and planned courses of action. The estimate, therefore, involves risks that the actual amount may differ materially from the estimate. Results from the latest valuation as at Dec. 31, 2002, projected to Dec. 31, 2003, and the major assumptions used in the valuation, are as follows:

Notes to the Consolidated Financial Statements

Economic assumptions:

	2003	2002
Discount rate – end of period	6.10%	6.20%
Expected return on plan assets	6.75%	6.75%
Inflation rate	3.00%	3.00%
Expected salary increase	4.00%	4.00%
Post-retirement index	50% of CPI	50% of CPI
Remaining service life of active members in years (EARSL)	5	3

Information about the Corporation's defined benefit plan is as follows:

	(thousands of $)	
	2003	2002
Accrued benefit obligation		
Accrued benefit obligation, beginning of year	$49,944	$48,071
Current service cost	304	294
Interest cost	3,003	3,150
Benefits paid	(3,536)	(3,292)
Actuarial loss on accrued benefit obligation	62	1,721
Accrued benefit obligation, end of year	$49,777	$49,944
Plan assets		
Fair value of plan assets, beginning of year	$49,293	$53,095
Actual return on plan assets	4,804	(618)
Employee contributions	97	108
Benefits paid	(3,536)	(3,292)
Fair value of plan assets, end of year	$50,658	$49,293
Funded status – plan surplus (deficit)	$ 881	$ (651)
Unamortized transitional asset	(4,597)	(5,340)
Unamortized net actuarial gains	2,081	3,541
Accrued pension liability	$ (1,635)	$ (2,450)
Accrued pension liability – SGI	$ 529	$ 753
Accrued pension liability – Saskatchewan Auto Fund	$ 1,106	$ 1,697

The defined benefit plan pension expense is as follows:

	(thousands of $) 2003	2002
Current service cost – defined benefit plan	$ 207	$ 186
Interest cost	3,003	3,150
Expected return on pension plan assets	(3,211)	(3,476)
Amortization of net transitional asset	(743)	(743)
Amortization of actuarial gains	(71)	(70)
Defined benefit plan pension income	$ (815)	$ (953)
Defined benefit plan pension income – SGI	$ (264)	$ (293)
Defined benefit plan pension income – Saskatchewan Auto Fund	$ (551)	$ (660)

The Corporation also has employees who are members of the Capital Pension Plan, which is a defined contribution pension plan. The Corporation's financial obligation is limited to matching employee contributions of 5.5% to the plan.

The defined contribution plan pension expense is as follows:

	(thousands of $) 2003	2002
Current service cost – defined contribution plan	$ 3,709	$ 3,538
Defined contribution plan pension expense – SGI	$ 1,199	$ 1,088
Defined contribution plan pension expense – Saskatchewan Auto Fund	$ 2,510	$ 2,450

16. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding at year-end are as follows:

	(thousands of $)	
Category	2003	2002
Accounts receivable	$ 39	$ 3,860
Deferred policy acquisition costs	5,675	4,936
Investments	3,628	2,258
Accounts payable and accrued charges	73	255
Dividends payable	5,664	–
Premium taxes payable	10,993	9,504
Provision for unpaid claims	384	852
Unearned premiums	1,186	1,135
Premiums written	3,150	2,723
Premiums earned	3,141	2,585
Claims incurred	369	798
Premium taxes	10,254	9,060
Administrative expenses	1,830	1,840
Investment earnings	201	153

The Corporation acts as administrator of the Fund. Administrative and claim adjustment expenses incurred by the Corporation are allocated to the Corporation and the Fund directly or on the basis of specific distributions. Amounts incurred by the Corporation and charged to the Fund were $75,678,000 (2002 – $75,983,000) and accounts payable are $2,541,000 (2002 – $2,417,000).

Through its 75% ownership in ICPEI, the Corporation has direct premiums that are written with Charlie Cooke Insurance Agency Ltd., claim adjusting fees from Atlantic Adjusting & Appraisals Ltd. and has premiums financed for policyholders by Maritime Finance & Acceptance Corporation. The policies written and the claim adjusting expenses paid are in the normal course of business. Transactions and amounts outstanding at year end are as follows:

Category	(thousands of $) 2003	2002
Accounts receivable	$ 644	$ 624
Accounts payable	60	54
Premiums written	9,848	8,862
Commissions paid	1,328	1,056
Claims incurred	426	360
Premiums financed	3,885	3,363

Other related party transactions are described separately in the notes.

17. FAIR VALUES

The following method and assumptions were used to estimate the fair value of each class of financial instrument:

(i) For the following financial instruments the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments:
- (a) cash and treasury bills
- (b) accounts receivable
- (c) accounts payable and accrued charges
- (d) dividends payable
- (e) premium taxes payable
- (f) amounts due to reinsurers

(ii) For the following financial instruments the fair values are considered to approximate quoted market values on recognized stock exchanges, based on the latest bid prices:
- (a) bonds and debentures
- (b) common shares
- (c) preferred shares

(iii) For the following financial instruments the fair values are considered to approximate quoted market values of the underlying investments, which is normally the current bid price:
- (a) pooled bond fund
- (b) pooled equity fund

(iv) Mortgages
The fair value is calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using current interest rates.

(v) Net investment in capital lease
The fair value is calculated by discounting scheduled cash flows through to the estimated expiration of the lease using current interest rates.

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(vi) Equity investments
The fair value of investments accounted for on the equity basis is considered to approximate book value.

(vii) Provision for unpaid claims and unpaid claims recoverable from reinsurers
The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has been omitted because it is not practicable to determine fair value with sufficient reliability (note 8).

18. FACILITY ASSOCIATION

Through its subsidiaries, the Corporation is a participant in various risk sharing pools whereby most companies in the industry share resources to provide insurance for high risks.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	(thousands of $)	
	2003	2002
Gross premiums written	$ 4,341	$ 2,032
Net premiums written	$ 4,341	$ 2,032
Net premiums earned	$ 3,231	$ 1,640
Claims incurred	3,594	1,907
Commissions	253	217
Premium taxes	103	67
Administrative expenses	472	169
Total claims and expenses	4,422	2,360
Underwriting loss	(1,191)	(720)
Investment earnings	128	53
Net loss	$ (1,063)	$ (667)
Facility Association receivable	$ 4,512	$ 1,747
Unearned premiums	1,687	555
Provision for unpaid claims	4,512	2,457

19. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2002 balances have been reclassified to conform to 2003 financial statement presentation.

Gail Smallwood, Clerk 3, Regina Commercial Claims Centre, was known for having a great sense of humour. Her wit was rivaled only by her ability to liven up the most monotonous tasks. Gail was with SGI for 26 years. She passed away on May 27, 2003 at the age of 46.

Ted Hunter, Adjuster 1 – Auto, Swift Current Claims Centre, always had a funny quip to add to any conversation, whether he was involved in it or not. His ability to make people laugh made him very popular around the office. Ted worked at SGI for 19 years. He passed away unexpectedly on Aug. 15, 2003 at the age of 46.

Isabel Burkholder, Manager, GIS Project, Systems, Regina, was an incredibly hard worker who successfully balanced work, family and community. Isabel was a strong leader with extensive knowledge and expertise in technology and insurance. Isabel worked at SGI for 25 years. She passed away suddenly on Sept. 10, 2003 at the age of 54.

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